



Corporate Governance Survey

RESULTS

JUNE 2001

Survey conducted by:

**Deloitte
& Touche**

Introduction

Deloitte & Touche LLP was asked to assist the Canadian Venture Exchange Inc. (“CDNX”) in conducting a survey of its listed corporations to assess current corporate governance practices. We distributed the survey to all active Tier 1 and Tier 2 CDNX issuers, some 1,800 listed corporations. We wish to thank the 329 CDNX issuers (“Respondents”) for their survey responses.

The survey asked for specific responses (“Specific Responses”) and general narrative comments (“Narrative Responses”). The Specific Responses allowed us to quantify current practices of CDNX listed corporations. Requests for Narrative Responses gave Respondents an opportunity to provide recommendations to CDNX on how to improve corporate governance.

Observations in this report are based on both Specific Responses and Narrative Responses. Specific Responses are also presented in an appendix, indexed and in the order they appeared in the survey. Narrative Responses are not reproduced in this report.

Key Findings

CDNX issuers want to practice good corporate governance and would welcome tools and assistance in developing their corporate governance structures.

CDNX issuers insist that corporate governance approaches be relevant to small issuers.

Respondent Profile

This is CDNX's first corporate governance survey and the first survey to specifically address the governance practices of smaller issuers. There have been other Canadian surveys, such as those underlying the Report on Corporate Governance 1999, Five Years to the Dey (the "1999 Survey") and the Joint Committee on Corporate Governance March 2001 Interim Report (the "Interim Report").

TSE issuers comprised the 1999 Survey population. Forty-two percent of the TSE issuers surveyed had market capitalizations over \$100 million. The Interim Report's initial survey population consisted of approximately 100 corporations submitting their corporate governance practices to the CICA/National Post Corporate Governance Awards, a competition only open to the 500 largest corporations in Canada. Respondents are small by comparison. Over one-half of Respondents have either less than \$5 million total assets or \$1 million annual revenues.

Survey Questions and Interpreting Survey Results

Deloitte & Touche and CDNX prepared the survey questions jointly. We described corporate governance practices in the survey questions consistently with descriptions used in the 1999 Survey and the Interim Report.

Survey respondent size may significantly affect how responses should be interpreted. For example, a response to a question about the Board’s involvement in the strategic planning process could vary significantly from a mature organization to a start-up venture. Because of this, readers should take care to evaluate survey responses in the context of Respondent size.

Asset Ranges

Range (thousands)	Number of Responses
\$0 - \$1,000	76
\$1,001 - \$5,000	114
\$5,001 - \$10,000	53
\$10,001 - \$20,000	23
Over \$20,000	36
No response	27

Revenue Ranges

Range (thousands)	Number of Responses
\$0 - \$100	103
\$101 - \$1,000	80
\$1,001 - \$5,000	54
Over \$5,000	54
No response	38

Tier Classification on CDNX

Tier	Number of Responses
Tier 1	77
Tier 2	251
Unknown	1

Head Office Location

Province	Number of Responses
British Columbia	133
Alberta	111
Ontario	55
Other	30

Corporate Governance Generally

Observations

- Most Respondents said CDNX should establish corporate governance directives for their issuers.
- A significant majority of Respondents said they support improved and standard disclosure of corporate governance practices.
- Most Respondents do not support disclosure of their corporate governance practices with reference to TSE guidelines.
- About one-half of Respondents said they were aware of the 1994 TSE Report “Where Were the Directors?”(the Dey Report). Most Respondents said they were not aware of the 1999 Report of the Blue Ribbon Committee on Improving the Effectiveness of Corporate Audit Committees.
- Many Respondents had concerns about attracting qualified Independent Directors to serve due to excessive cost and risk of uninsured Director liability.
- Many Respondents were concerned about the relative cost of corporate governance measures to smaller corporations.
- Some Respondents insisted that any future guidelines be practical. For example, some Respondents said things like separation of the Chair from CEO and a requirement for a majority of Independent Directors were impractical.
- Many Respondents said any future CDNX corporate governance disclosure requirements should be simple, less bureaucratic and more reflective of the business realities facing smaller corporations.
- Several Respondents supported different requirements for different tiers of CDNX issuer.
- Many Respondents believed that assistance in adopting appropriate corporate governance practices, through things like a corporate manual, would be helpful.
- Several Respondents supported delivery of focused governance training and education.

Survey Results

	Yes	No	No Response
The Board believes that it would be helpful to have corporate governance guidelines or directives specifically applicable to CDNX	220	89	20
Would you support requirements for all listed corporations to fully disclose, at least annually, their corporate governance practices with reference to the TSE guidelines for corporate governance?	125	178	26
The Board is aware of:			
– The Toronto Stock Exchange 1994 Report entitled “Where Were the Directors?”	161	154	14
– The 1999 Report of the Blue Ribbon Committee on Improving the Effectiveness of Corporate Audit Committees	113	200	16

Board Structure

Observations

- In aggregate, Respondents considered 879 Directors as Independent Directors. This was 54% of the 1,616 Directors identified.
- In aggregate, Respondents considered 652 Directors as non-management. This was 40% of the 1,616 Directors identified.
- Most Respondents have not developed a definition of an “Independent Director”.
- Respondents defining an “Independent Director” provided diverse definitions.
- A significant majority of Respondents said the Chair is a member of management.
- Almost all Respondents are satisfied with their current Board size.
- Few Respondents require Directors to hold a minimum number of shares.
- A significant majority of Boards allow Directors to engage outside advisors to assist them.

Survey Results

Number of Directors on the Board.

Number of Directors	Number of Responses
3	59
4	80
5	92
6	49
7	28
8	14
9	5
12	1
No response	1

Number of Directors who are neither employees, senior officers, Control Persons nor management consultants of the Issuer or its Associates or Affiliates.

Number of Directors	Number of Responses
0	13
1	41
2	116
3	81
4	41
5	19
6	6
7	7
8	1
11	1
No response	3

Number of Directors who are members of management.

Number of Directors	Number of Responses
0	3
1	116
2	126
3	62
4	12
5	2
6	2
7	4
No response	2

	Yes	No	No Response
Does the Board have a definition of Independent Directors?	100	215	14
The Chair of the Board is a member of management	243	68	18
There is the appropriate number of Directors on the Board for effective operation	318	9	2
There are too many Directors on the Board for effective operation	8	316	5
There are too few Directors on the Board for effective operation	14	311	4
Each Board member is required to hold a minimum percentage of shares	14	313	2
The Board allows individual Directors to engage outside advisors to assist them	257	60	12

Audit Committees

Observations

- Of 922 Audit Committee members listed, 587 of them, or 64%, were described as Independent Directors.
- Most Respondents said no members of their Audit Committee had an accounting designation, yet almost all Respondents said each Audit Committee member was financially literate.
- Almost all Respondents said their Audit Committees have direct communications with their external auditors.
- Almost all Respondents said the Audit Committee discussed the quality of accounting practices with their auditors.
- Most Respondents require annual statements from their auditors disclosing all relationships with the corporation.

Survey Results

Number of Directors on the Audit Committee

Number of Directors	Number of Responses
0	2
1	2
2	42
3	254
4	14
5	1
6	1
7	1
No response	12

Number of Independent Directors on the Audit Committee

Number of Directors	Number of Responses
0	25
1	62
2	166
3	58
4	3
7	1
No response	14

	Yes	No	No Response
The Board has established an Audit Committee	314	12	3
At least one member of the Audit Committee has an accounting designation	136	179	14
Each member of the Audit Committee is financially literate	308	8	13
The Audit Committee has direct communication channels with the external auditors	292	16	21
The Audit Committee discusses with the external auditors, the auditors' judgment about the quality of the accounting principles applied in the Corporation's financial reporting	287	29	13
The Board reviews and re-assesses the Audit Committee's mandate annually	207	108	14
The Audit Committee requires the external auditors deliver an annual statement to the Audit Committee disclosing all relationships between the external auditors and the Corporation	182	124	23
The Board and the Audit Committee have an appropriate and adequate process to choose or change the external auditors	269	45	15
The Board has documented the roles and responsibilities of the Audit Committee	174	139	16

Corporate Governance and Nominating Committees

Observations

- Few Respondents reported using Corporate Governance or Nominating Committees.
- Many Respondents reported using a Compensation Committee.

Survey Results

Number of Directors on the Corporate Governance and/or Nominating Committee.

Number of Directors	Number of Responses
1	3
2	13
3	44
4	5
5	5
6	1
8	1
No response	257

Number of Independent Directors on the Corporate Governance and/or Nominating Committee.

Number of Directors	Number of Responses
0	8
1	15
2	34
3	12
5	1
6	2
No response	257

	Yes	No	No Response
The Board has established a Corporate Governance Committee	52	259	18
The Board has established a Nominating Committee	41	266	22

Policies, Practices, Procedures and Meetings

Observations

- Few Respondents said that they have documented roles and responsibilities for the Board, Chief Executive Officer and Committees. Most Respondents said they have documented the role of the Audit Committee.
- Few Respondents said that their Board has adopted a Code of Conduct and Ethics.
- Few Respondents said that they have orientation or training for new Directors.
- Few Respondents said there is an assessment process for the Board and very few Respondents said there is an assessment process for individual Directors.
- Few Respondents said that they meet formally without management and that the Independent Directors meet separately.
- For those Respondents who indicated that they met formally without management, the frequency of these meetings varied significantly.

Survey Results

	Yes	No	No Response
Written position descriptions have been developed for:			
– The Board	36	278	15
– The Chief Executive Officer	91	223	15
The Board:			
– Approves corporate objectives	299	17	13
– Develops corporate objectives	201	112	16
The Board has documented the roles and responsibilities of the following Committees:			
– The Audit Committee	174	139	16
– The Corporate Governance Committee	43	222	64
– The Nominating Committee	39	220	70
The Board has documented which decisions require prior Board approval	136	178	15
The Corporation allows Directors to engage outside advisors at the Corporation's expense	183	124	22
The Board or a Committee of the Board must approve engagement of outside advisors	222	82	25
The Board has adopted a Code of Conduct and Ethics for itself	90	224	15
The Corporation provides an orientation and education program for new Directors	58	257	14
The Board has implemented an assessment process for:			
– Itself as a whole	33	281	15
– Each Committee	19	293	17
– Each Director	21	292	16
Each Director must attend a minimum number or percentage of Board meetings each year	105	218	6
The Board formally meets without management and Management Directors present	53	270	6
Independent Directors formally meet separately as a group	33	277	19

Risk Assessment and Strategic Planning

Observations

- Most Respondents said their Board is ensuring the integrity of the Corporation's internal controls and management information.
- Respondents indicated several processes to obtain this assurance. Many Respondents said this function was carried out by the Audit Committee.
- Many Respondents said they relied on their external auditor to provide such assurance.
- About one-half of Respondents said their Board implemented processes to manage principal business risks and to do strategic planning.
- Few Respondents have developed succession plans for senior management.

Survey Results

	Yes	No	No Response
The Board ensures the integrity of the Corporation's internal control and management information systems	174	145	10
The Board has formally identified the Corporation's principal business risks	187	126	16
The Board has implemented a process to manage the Corporation's principal business risks	154	164	11
The Board has adopted a strategic planning process	155	165	9
The Board has established a succession plan for senior management, which includes identifying, appointing and training of new senior management	35	283	11

Compensation

Observations

- A significant majority of Respondents said their Directors receive stock-based compensation.

Survey Results

	Yes	No	No Response
All Directors receive remuneration	54	271	4
Only Independent Directors receive remuneration	40	276	13
Directors remuneration is:			
– Appropriate given their risks and responsibilities	126	128	75
– Too low given their risks and responsibilities	114	117	98
– Too high given their risks and responsibilities	1	214	114
Directors receive stock-based compensation	286	39	4

Corporate Disclosure

Observations

- About one-half of Respondents said they have developed a formal communication policy.
- Almost all Respondents said they rely on senior management to review communications prior to dissemination.
- Few Respondents said they utilize investor relations firms.
- A significant majority of Respondents said they do not disclose how an Independent Director is defined. For those who do disclose, it is usually through the Annual Information Circular or Proxy Statement.
- Board composition and Director remuneration and shareholdings were the most common matters said to be disclosed in the Annual Report or Proxy Statement.

Survey Results

	Yes	No	No Response
The Board has established a formal communications policy for the Corporation	150	171	8
The Board has established a policy whereby press releases, etc., are reviewed, prior to distribution or dissemination, by:			
– The Board	191	127	11
– Senior management	297	20	12
– In-house counsel	70	214	45
– External counsel	141	161	27
– External auditors	43	253	33
The Board has approved the use of an investor relations firm concerning the distribution and dissemination of corporate communications (including press releases)	102	224	3
The Board discloses annually or otherwise how an Independent Director is defined	38	285	6
The following matters are disclosed in the annual report or proxy:			
– Measures for receiving shareholder feedback and concerns	113	201	15
– The Board’s expectations of senior management	50	258	21
– Director remuneration and shareholdings	299	21	9
– Board effectiveness assessments	24	289	16
– The procedures for recruiting new Directors	22	292	15
– The Board’s mandate	90	223	16
– Board committee mandates and activities	91	220	18
– Board composition, including Independent Directors	283	38	8
The Board has established formal procedures for responding to shareholder feedback and concerns	129	191	9

Appendix

Specific Responses

Complete Listing of Specific Responses

The following is a breakdown of the Specific Responses provided for each question in the order they appeared in the survey. Questions marked with an asterisk (*) asked for either a Narrative Response or for general population data. These responses have not been reproduced in the Appendix.

	Yes	No	N/A	No Response
1 • Board Structure				
A* Number of Directors on the Board				
B* Number of Independent Directors				
C* Number of Directors that are members of management				
D There is the appropriate number of Directors on the Board for effective operation	318	9		2
E There are too many Directors on the Board for effective operation	8	316		5
F There are too few Directors on the Board for effective operation	14	311		4
G The Board allows individual Directors to engage outside advisors to assist them	257	60		12
H Does the Board have a definition of Independent Directors?	100	215		14
I The Chair of the Board is a member of management	243	68		18
J Each Board member is required to hold a minimum percentage of shares	14	313		2
2 • Committee Structure				
A The Board has established the following Committees:				
– Audit Committee	314	12		3
– Corporate Governance Committee	52	259		18
– Nominating Committee	41	266		22
3 • Audit Committee				
A* Number of Directors on the Audit Committee				
B* Number of Independent Directors on the Audit Committee				
C At least one member of the Audit Committee has an accounting designation	136	179		14
D Each member of the Audit Committee is financially literate	308	8		13
E The Audit Committee has direct communication channels with:				
– The internal auditors	125	6	177	21
– The external auditors	292	16		21

	Yes	No	N/A	No Response
F The Audit Committee discusses with the external auditors, the auditors' judgment about the quality of the accounting principles applied in the Corporation's financial reporting	287	29		13
G The Board reviews and re-assesses the Audit Committee's mandate annually	207	108		14
H The Audit Committee requires the external auditors deliver an annual statement to the Audit Committee disclosing all relationships between the external auditors and the Corporation	182	124		23

4 • Corporate Governance and/or Nominating Committee

A* Number of Directors on the Corporate Governance and/or Nominating Committee				
B* Number of Independent Directors on the Corporate Governance and/or Nominating Committee				
C The Corporate Governance and/or Nominating Committee is responsible for recommending new Directors for appointment to the Board	51	19		259
D The Corporate Governance and/or Nominating Committee is responsible for ongoing assessments of each Director	47	24		258
E The Corporate Governance and/or Nominating Committee is responsible for Director remuneration	47	23		259

5 • Board Polices, Practices and Procedures

A Written position descriptions have been developed for:				
– The Board	36	278		15
– The Chief Executive Officer	91	223		15
B The Board:				
– Approves corporate objectives	299	17		13
– Develops corporate objectives	201	112		16
C The Board has documented the roles and responsibilities of the following Committees:				
– The Audit Committee	174	139		16
– The Corporate Governance Committee	43	222		64
– The Nominating Committee	39	220		70
D The Board has documented which decisions require prior Board approval	136	178		15
E The Corporation allows Directors to engage outside advisors at the Corporation's expense	183	124		22
F The Board or a Committee of the Board must approve engagement of outside advisors	222	82		25
G The Board has adopted a Code of Conduct and Ethics for itself	90	224		15

	Yes	No	N/A	No Response
H The Corporation provides an orientation and education program for new Directors	58	257		14
I The Board has implemented an assessment process for: itself as a whole	33	281		15
– Each Committee	19	293		17
– Each Director	21	292		16
J The Board and the Audit Committee have an appropriate and adequate process to choose or change the external auditors	269	45		15
K The Board's expectations of each member of senior management are:				
– Clearly defined	196	109		24
– Communicated to management	231	79		19
– Documented	88	214		27

6 • Board Meetings

A Each Director must attend a minimum number or percentage of Board meetings each year	105	218		6
B The Board formally meets without management and Management Directors present	53	270		6
C* If the answer to the preceding question was Yes, how often do such meetings occur?				
D Independent Directors formally meet separately as a group	33	277		19

7 • Risk Assessment and Strategic Planning

A The Board ensures the integrity of the Corporation's internal control and management information systems	174	145		10
B* If the answer to the preceding question was Yes, describe the process the Board follows to accomplish this				
C The Board has formally identified the Corporation's principal business risks	187	126		16
D The Board has implemented a process to manage the Corporation's principal business risks	154	164		11
E The Board has adopted a strategic planning process	155	165		9
F The Board has established a succession plan for senior management, which includes identifying, appointing and training of new senior management	35	283		11
G The Board has established formal procedures for responding to shareholder feedback and concerns	129	191		9

8 • Board Compensation

	Yes	No	N/A	No Response
A All Directors receive remuneration	54	271		4
B Only Independent Directors receive remuneration	40	276		13
C Director remuneration is:				
– Appropriate given their risks and responsibilities	126	128		75
– Too low given their risks and responsibilities	114	117		98
– Too high given their risks and responsibilities	1	214		114
D Directors receive stock-based compensation	286	39		4

9 • Corporate Disclosure

A The Board has established a formal communications policy for the Corporation	150	171		8
B The Board has established a policy whereby press releases, etc., are reviewed, prior to distribution or dissemination, by:				
– The Board	191	127		11
– Senior management	297	20		12
– In-house counsel	70	214		45
– External counsel	141	161		27
– External auditors	43	253		33
C The Board has approved the use of an investor relations firm concerning the distribution and dissemination of corporate communications (including press releases)	102	224		3
D The Board discloses annually or otherwise how an Independent Director is defined	38	285		6
E* If the answer to the preceding question was Yes, explain how and where such disclosure is made				
F The following matters are disclosed in the annual report or proxy:				
– Measures for receiving shareholder feedback and concerns	113	201		15
– The Board's expectations of senior management	50	258		21
– Director remuneration and shareholdings	299	21		9
– Board effectiveness assessments	24	289		16
– The procedures for recruiting new Directors	22	292		15
– The Board's mandate	90	223		16
– Board committee mandates and activities	91	220		18
– Board composition, including Independent Directors	283	38		8

10 • Corporate Governance Generally

	Yes	No	N/A	No Response
A The Board is aware of:				
– The Toronto Stock Exchange 1994 Report entitled “Where Were the Directors?”	161	154		14
– The 1999 Report of the Blue Ribbon Committee on Improving the Effectiveness of Corporate Audit Committees	113	200		16
B The Board believes that it would be helpful to have corporate governance guidelines or directives specifically applicable to CDNX issuers	220	89		20
C Would you support requirements for all listed corporations to fully disclose, at least annually, their corporate governance practices with reference to the TSE guidelines for corporate governance?	125	178		26
D* Please describe how you see the disclosures described in Question 10(c) advancing a culture of corporate governance CDNX-listed issuers and improving the quality of corporate for governance itself				

11 • Additional Questions

- A*** List other governance issues that affect your Corporation
- B*** Additional comments
- C*** Describe what would be the most helpful corporate governance tools that could be created to help CDNX issuers achieve better corporate governance